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Q3 FY13 Financial Results

August 6, 2013

Hong Hou
Chief Executive Officer

Mark Weinswig
Chief Financial Officer

“Safe Harbor” Statement

Forward-Looking Statements:

The information provided herein may include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934. These forward-looking statements are largely based on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Such forward-looking statements include, in particular, projections about our future results included in our Exchange Act reports, statements about our plans, strategies, business prospects, changes and trends in our business and the markets in which we operate. These forward-looking statements may be identified by the use of terms and phrases such as “anticipates”, “believes”, “can”, “could”, “estimates”, “expects”, “forecasts”, “intends”, “may”, “plans”, “projects”, “targets”, “will”, and similar expressions or variations of these terms and similar phrases. Additionally, statements concerning future matters such as the development of new products, enhancements or technologies, sales levels, expense levels and other statements regarding matters that are not historical are forward-looking statements. We caution that these forward-looking statements relate to future events or our future financial performance and are subject to business, economic, and other risks and uncertainties, both known and unknown, that may cause actual results, levels of activity, performance or achievements of our business or our industry to be materially different from those expressed or implied by any forward-looking statements. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected, including without limitation, the following: (a) the impact on the Company related to the asset sales to Sumitomo and Suncore Photovoltaic, and the sale of its 40% interest in Suncore Photovoltaic Technology Co., Ltd.; (b) the rapidly evolving markets for the Company's products and uncertainty regarding the development of these markets; (c) the Company's historical dependence on sales to a limited number of customers and fluctuations in the mix of products and customers in any period; (d) delays and other difficulties in commercializing new products; (e) the failure of new products: (i) to perform as expected without material defects, (ii) to be manufactured at acceptable volumes, yields, and cost, (iii) to be qualified and accepted by our customers, and, (iv) to successfully compete with products offered by our competitors; (f) we may not be successful in undertaking the steps currently planned in order to increase our liquidity; (g) uncertainties concerning the availability and cost of commodity materials and specialized product components that we do not make internally; (h) actions by competitors; and (i) other risks and uncertainties described in our filings with the Securities and Exchange Commission (“SEC”). Neither management nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. All forward-looking statements in this press release are made as of the date hereof, based on information available to us as of the date hereof, and subsequent facts or circumstances may contradict, obviate, undermine, or otherwise fail to support or substantiate such statements. We caution you not to rely on these statements without also considering the risks and uncertainties associated with these statements and our business that are addressed in our filings with the SEC that are available on the SEC's web site located at www.sec.gov, including the sections entitled "Risk Factors" in our Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q. Certain information included in this press release may supersede or supplement forward-looking statements in our other Exchange Act reports filed with the SEC. We assume no obligation to update any forward-looking statement to conform such statements to actual results or to changes in our expectations, except as required by applicable law or regulation.

Use of Non-GAAP Financial Measures



We provide a non-GAAP adjusted operating loss disclosure as a supplemental measure to U.S. GAAP regarding our operational performance. This financial measure excludes the impact of certain items; therefore, it has not been calculated in accordance with U.S. GAAP.

We believe that the additional non-GAAP financial measure is useful to investors in assessing our operating performance. We also use this measure internally to evaluate our operating performance and this measure is used for planning and forecasting of future periods. In addition, financial analysts that follow us may focus on and publish both historical results and future projections based on our non-GAAP financial measure. We also believe that it is in the best interest of our investors to provide this non-GAAP information.

While we believe that this non-GAAP financial measure provides useful supplemental information to investors, there are limitations associated with the use of this non-GAAP financial measure. Our non-GAAP financial measure may not be reported by all of our competitors and it may not be directly comparable to similarly titled measures of other companies due to potential differences in calculation. We compensate for these limitations by using this non-GAAP financial measure as a supplement to U.S. GAAP and by providing a reconciliation of the non-GAAP financial measure to its most comparable U.S. GAAP financial measure.

Non-GAAP financial measures are not in accordance with or an alternative for U.S. GAAP. Our non-GAAP financial measure is not meant to be considered in isolation or as a substitute for comparable U.S. GAAP financial measures and it should be read only in conjunction with our consolidated financial statements prepared in accordance with U.S. GAAP.

■ **Broadband:**

- Low revenue due to the slow MSO capex spending in the 1Q'13. Concerted effort to drive sales of optical components and node/return path
- MSOs accelerated the capex spending in the June quarter. We started seeing significant increase in booking activities starting from June
- In July, we reduced headcount and discretionary spending to bring the cost structure more sustainable
- We expect improved revenue and financial performance in the September quarter
- We are in close collaboration with our customers to design products which are in compliance with DOCSIS3.1 and CCAP

■ **Telecom:**

- Revenue flat sequentially in Q3'13
- New design wins: micro-ITLA expanded to more than 10 program design-ins since commencing production in March; tunable XFP design wins at a leading customer due to superior OSNR and low power consumption
- Clear path and corrective actions in place to improve yield and reduce cost of TXFP and micro-ITLAs. Expect cost improvements in Sept Qtr
- Expect an increases of the ITLA revenue in the Sept Qtr and Dec Qtr
- New product of 100G integrated tunable transmitter is under development

■ Space Photovoltaics:

- Revenue decline due to a gap in aerospace programs and a delay of a large shipment to an international customer as a result of approval delay
- Gross margin of 28.6% and net profit \$1.3M
- Order backlog to be shipped within next 12 months increased >\$21M to \$58M, near record levels
- Our customer base has seen very strong recent program awards
- Solid business outlook with strong expected operating performance
- Announced sale of 40% equity interest in Suncore to San'an Optoelectronics for \$4.8M. The book value is \$0 at 6/30/13.
 - Closing is expected to be in the September quarter upon completion of regulatory approval
 - Minimal exposure to the terrestrial solar power market going forward

- **Q3 FY13 revenues of \$33.5M, a decrease of 21% from Q2**
 - Photovoltaic revenues of \$11.9M, down \$7.2M sequentially
 - Fiber Optics revenues of \$21.6M, down \$1.6M sequentially

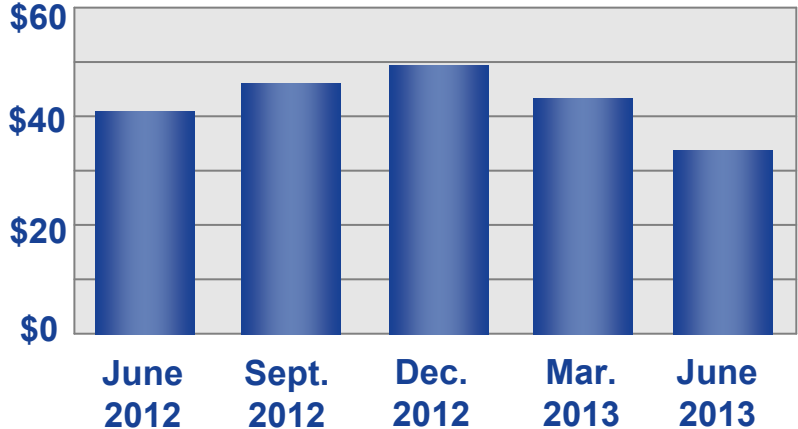
- **Q3 FY13 non-GAAP financial results**
 - Non-GAAP Net Loss of \$5.9M, down from \$33K of Income in Q2
 - Includes a \$1M excess and obsolete inventory charge for Fiber Optics

- **Balance Sheet**
 - Total Assets of \$168M
 - Cash (and restricted cash) at \$6.6M, up \$0.4M from Q2
 - Net working capital (current assets – current liabilities) at \$24.7M

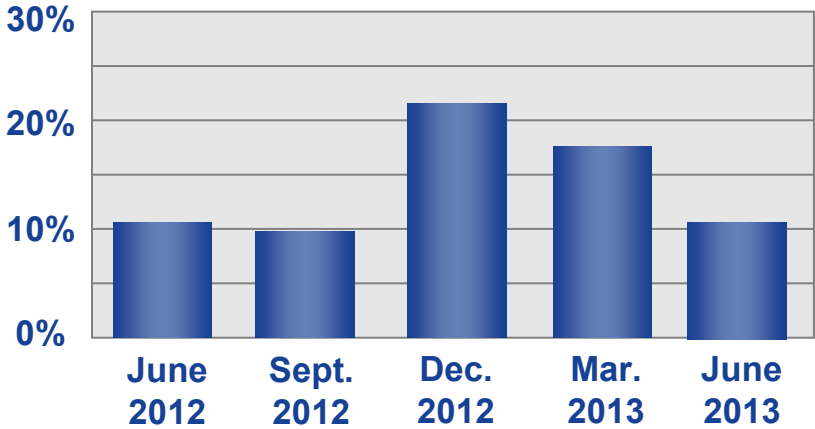
Q3 Consolidated Financial Summary & Q4 Outlook



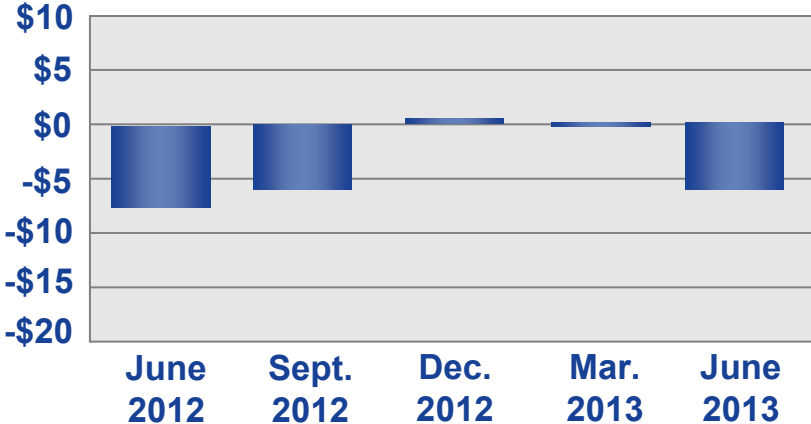
Revenue (\$M)



Gross Margin %



Non-GAAP Income (Loss) (\$M)



Outlook Q4 FY13

We expect 4th quarter revenue to be in the range of **\$42 to \$45 million.**

Summary Income Statement



QUARTER ENDING	06/30/12	09/30/12	12/31/12	3/31/13	6/30/13
Revenue	\$ 41,062	\$ 47,488	\$ 49,306	\$ 42,277	\$ 33,473
COGS	36,677	42,891	38,358	34,444	29,429
Gross Profit	4,385	4,597	10,948	7,833	4,044
Gross Margin	10.7%	9.7%	22.2%	18.5%	12.1%
Total Operating Expense	13,143	10,890	8,101	(4,338)	11,713
Operating Income (Loss)	(8,758)	(6,293)	2,846	12,171	(7,669)
Total Other Income (Expense)	(281)	(275)	100	(474)	386
Income (Loss) Before Income Tax	(9,039)	(6,568)	2,946	11,697	(7,283)
Income Tax	-	-	(120)	-	-
NET INCOME (LOSS)	\$ (9,039)	\$ (6,568)	\$ 2,826	\$ 11,697	\$ (7,283)

(in thousands)

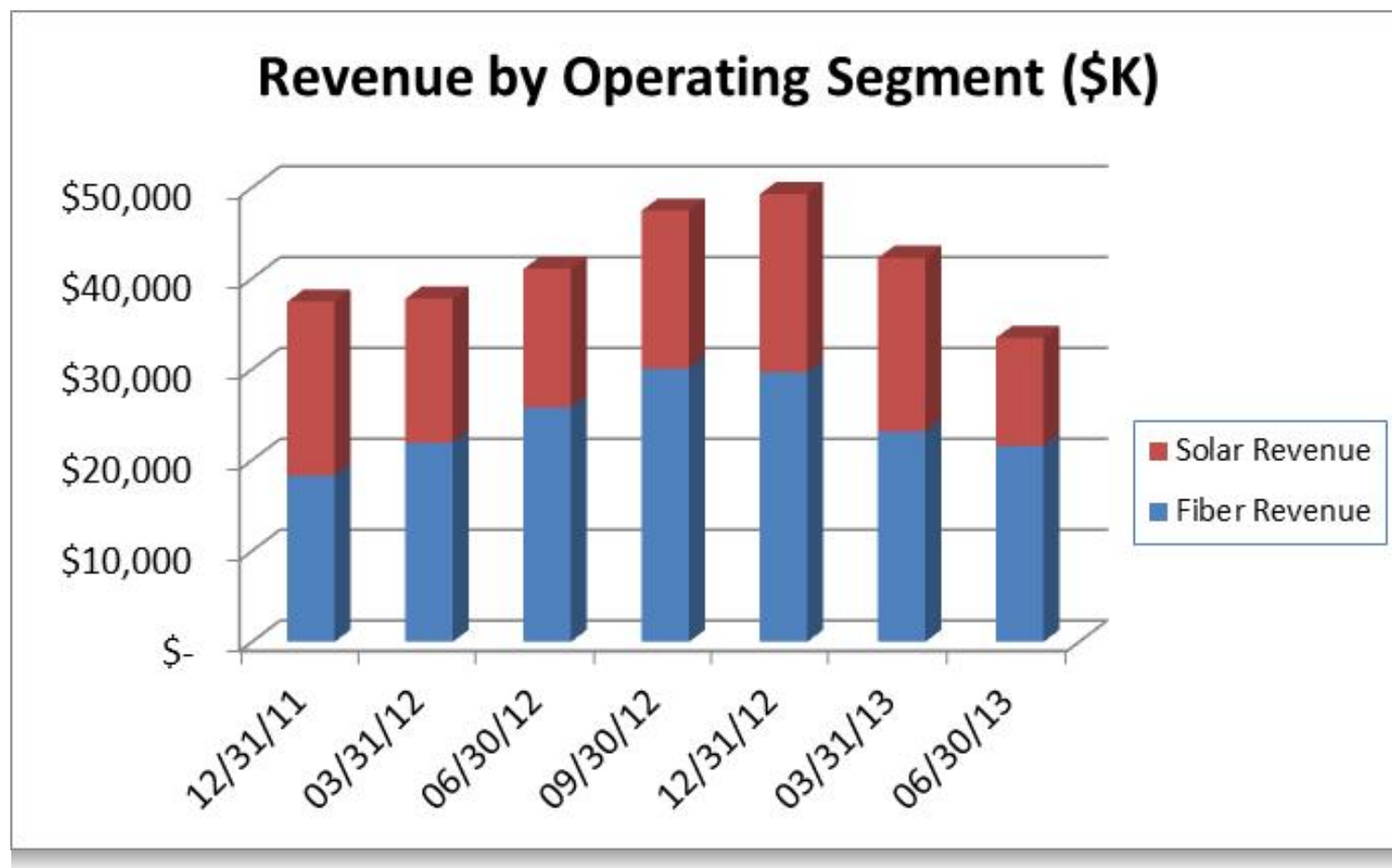
Reconciliation of Non-GAAP Income (loss)

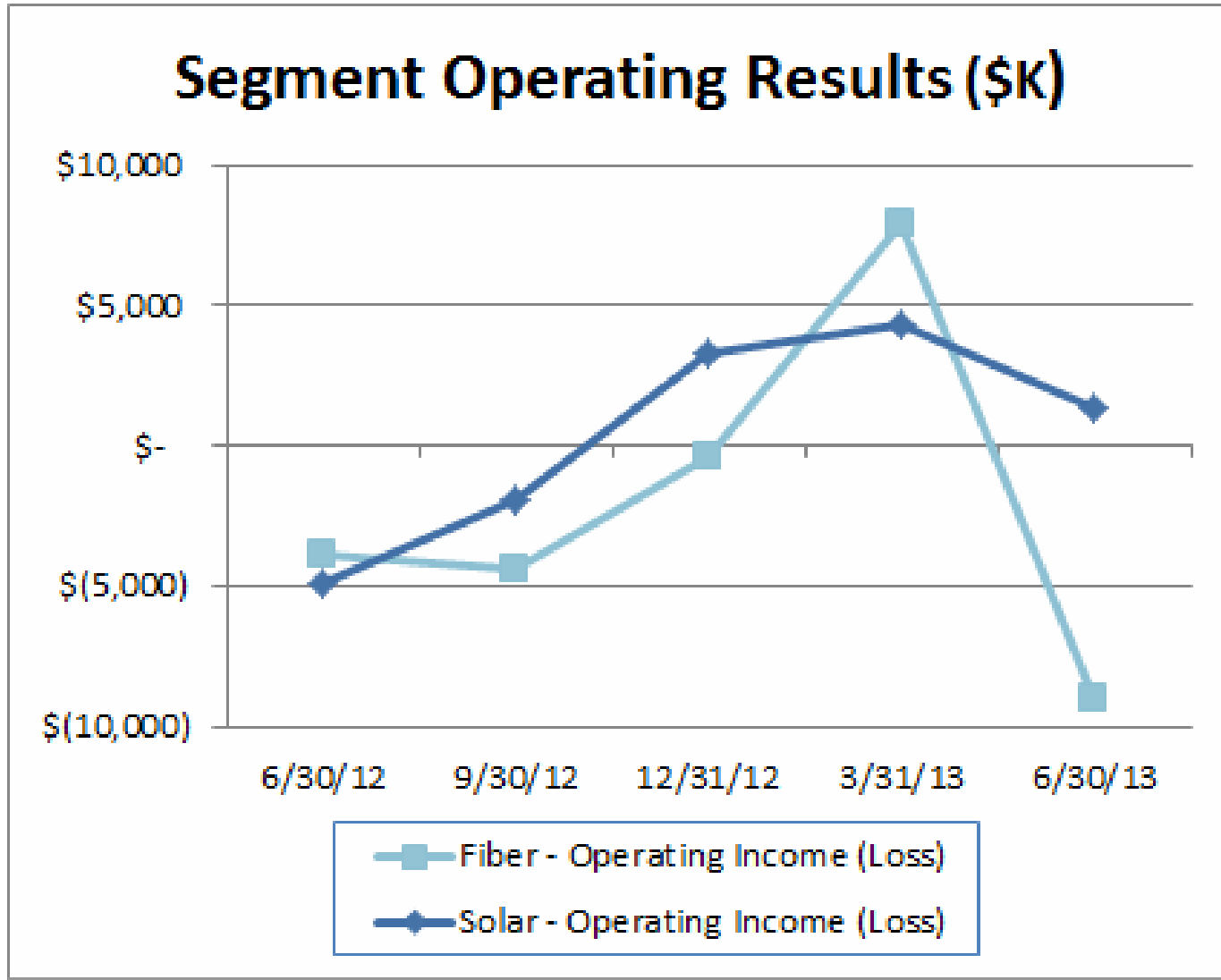


QUARTER ENDING	06/30/12	09/30/12	12/31/12	3/31/13	6/30/13
NET INCOME (LOSS)	\$ (9,039)	\$ (6,568)	\$ 2,826	\$ 11,697	\$ (7,283)
Adjustments:					
Amortization	383	317	317	317	317
ARO Accretion expense	51	53	54	54	53
FAS123R	961	1,410	795	763	834
FAS123R – other compensatory	314	349	287	288	318
Litigation settlements, net	1,050	-	-	-	-
Flood related loss (recovery)	(293)	-	-	-	-
Flood related insurance proceeds	-	(4,000)	(4,192)	(14,808)	-
Losses on inventory purchase commitments	278	723	-	-	-
Warranty provision	-	-	-	1,425	-
Loss (gain) on sale of assets	(2,793)	51	-	(358)	-
Specific severance charges	-	1,090	-	181	241
Impairment charges	1,425	-	-	-	-
Currency exchange losses (gains)	196	16	(101)	21	(181)
Change in fair value of outstanding warrants	(61)	(21)	(237)	267	(373)
Interest expense, net	146	281	238	186	185
Income tax expense	-	-	120	-	-
Total Adjustments	1,657	270	(2,719)	(11,664)	1,394
Non-GAAP Net Income (Loss)	\$ (7,382)	\$ (6,298)	\$ 107	\$ 33	\$ (5,889)

(in thousands)

Operating Results by Segment by Quarter





Condensed Balance Sheet



QUARTER ENDING	As of 6/30/2012	As of 6/30/2013
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 20,245	\$ 5,914
Restricted cash	571	702
Accounts receivable, net	30,726	39,289
Inventory, net	38,938	36,391
Assets held for sale	-	-
Other current assets	9,421	11,221
Total current assets	99,901	93,518
Property, plant & equipment	46,923	50,665
Goodwill, net	20,384	20,384
Patents, net	3,745	2,476
Suncore - equity method investment	-	-
Other non-current assets, net	4,476	1,067
Total assets	\$ 175,429	\$ 168,110
<u>LIABILITIES & EQUITY</u>		
Current liabilities:		
Line of credit	\$ 22,291	\$ 20,061
Warrant liability	691	327
Accounts payable	36,560	22,460
Accrued liabilities and other	33,198	26,010
Total current liabilities	92,740	68,858
Other long-term liabilities	9,400	9,222
Total liabilities	102,140	78,080
Total shareholders' equity	73,289	90,030
Total liabilities and equity	\$ 175,429	\$ 168,110

(in thousands)

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